

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MEADE)	
COUNTY WATER DISTRICT FOR APPROVAL TO)	
ENTER INTO A LEASE AGREEMENT WITH THE)	
KENTUCKY LEAGUE OF CITIES LEASING)	CASE NO.
TRUST, IN AN APPROXIMATE PRINCIPAL)	2021-00124
AMOUNT OF \$2,260,000 FOR THE PURPOSE OF)	
REFINANCING OUTSTANDING OBLIGATIONS)	
OF THE MEADE COUNTY WATER DISTRICT)	

ORDER

On March 4, 2021, Meade County Water District (Meade District), pursuant to KRS 278.300 and 807 KAR 5:001, filed an application seeking Commission authority to enter into a lease agreement (Lease) with the Kentucky Bond Corporation (KBC) to borrow approximately \$2,260,000. The proceeds of which will be used to refinance two outstanding debt obligations of Meade District, and to pay the costs of issuance of the Lease. No party has sought intervention in this matter. Meade District responded to one round of discovery, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

Meade District, a water association organized pursuant to KRS 278.012, owns and operates facilities that provide retail water service to 4,872 residential customers in Meade County, Kentucky.¹

¹ *Annual Report of Meade County Water System to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2019* (2019 Annual Report) at 12 and 49.

Meade District proposes to execute the Lease with KBC to borrow \$2,260,000.² The proposed Lease will have a 30-year term subject to interest rates that will vary from 0.65 percent to 2.60 percent per annum.³ Meade District proposes to use the proceeds from the KBC Lease to fully refund two Water and Sewer Revenue Bonds: (1) Water and Sewer Revenue Bond, Series 1992 (Series 1992 Bonds) with a remaining outstanding principal amounts of \$232,000 and (2) Water and Sewer Revenue Bond, Series 2009 (Series 2009 Bond) with a remaining outstanding principal amount of \$1,880,000.⁴

Meade District estimates that it will expend \$2,260,000.00 to refund the two Water and Sewer Revenue Bonds.⁵ Meade District provided a Debt Service Comparison indicating that the refinancing would save \$454,685.48⁶ over the life of the proposed Lease, resulting in a positive net present value (NPV) cash flow savings of \$328,774.14.⁷

The Commission has reviewed the proposed refinancing and finds Meade District's proposal to be reasonable due to the lower effective interest rate and cash flow savings Meade District would realize over the period of the Lease. However, if the new interest rate on the proposed refinancing is higher than the range of interest rates set forth in the

² Application at 2, paragraph 5.

³ *Id.*, Exhibit A.

⁴ *Id.* at 2, paragraph 5.

⁵ *Id.* at 2, paragraph 5, Exhibit B, Sources and uses. Uses of Funds: \$33,900.00 (Total Underwriter's Discount) + \$35,228.67 (Costs of Issuances) + \$45,200.00 (Deposit to Current Refunding Fund) + \$2,142,954.86 (Deposit to Current Refunding Fund) + \$2,716.47 (Rounding Amount) = \$2,260,000.00.

⁶ Meade District's Response to Commission Staffs First Data Request (filed Mar. 12, 2021), Schedule I to Exhibit A.

⁷ *Id.*, Schedule III to Exhibit A.

application, Meade District should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow.

The Commission commends Meade District for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its customers. However, the Commission is concerned with Meade District's prolonged absence from the Commission's review of its asset management through an application for adjustment of its rates. Pursuant to KRS 278.300(4), the Commission may grant or deny an application for approval of financing in whole or in part, or upon such terms and conditions as deemed necessary or appropriate. The Commission has performed a limited review of Meade District's financial records that are on file for the five calendar years and determined that Meade District appears to be on solid financial footing at the present time. Therefore, the Commission finds that Meade District should file an application for adjustment of its base rates through an alternative rate filing within three years of the date of filing of this Order, or, in the alternative, file a formal motion with a detailed analysis of its rates and state the reasons why no rate modification is necessary.

After consideration of the evidence of record and being sufficiently advised, the Commission finds that:

1. The proposed Lease from KBC is for lawful objects within the corporate purposes of Meade District; is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public; will not impair its ability to perform that service; is reasonable, necessary, and appropriate for such purposes; and should be approved.

2. Meade District should execute its note as security for the proposed Lease in the manner described in its application.

3. The Commission directs Meade District to the Commission's March 16, 2020 and March 24, 2020 Orders in Case No. 2020-00085⁸ regarding filings with the Commission. The Commission expects the original documents to be filed with the Commission within 30 days of the lifting of the current state of emergency.

4. The final amounts of the Series 1992 Bond and Series 2009 Bond payoffs, the legal fees, and the new KBC Lease will not be known until the refinancing transaction is finalized. Therefore, Meade District should provide the Commission an updated version of the application, Exhibit C, reflecting the cash flow analysis of the new KBC Lease within ten days of finalizing the transaction.

5. Within ten days of the execution of the new KBC Lease documents, Meade District should file with the Commission one copy in paper medium and an electronic version of the Lease documents.

6. The proceeds from the proposed Lease should be used only for the lawful purposes set out in Meade District's application.

7. The terms and conditions of the new KBC Lease should be consistent with the KBC assistance program as described in Meade District's application.

8. Meade District should file for an adjustment in base rates or file for an alternative rate filing within three years of the date of filing of this Order to ensure that its

⁸ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5–6. Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 24, 2020), Order at 1–3.

rates are sufficient or, in the alternative, file a formal motion with a detailed analysis of its rates and state the reasons why no rate modifications are necessary.

IT IS THEREFORE ORDERED that:

1. Meade District is authorized to enter into the Lease with KBC to borrow no more than the total amount to pay off the indebtedness proposed to be refinanced as identified in the application on the condition that the final NPV of the savings, determined upon closing, generate positive cash flow. The Lease maturity date and interest rate shall be in accordance with the KBC Lease as described in Meade District's application.

2. Meade District shall execute the KBC Lease documents as authorized herein.

3. Meade District shall comply with all matters set out in finding paragraphs 3 through 7 as if they were individually so ordered.

4. Any documents filed in the future pursuant to finding paragraphs 4 and 5 shall reference this case number and shall be retained in the post-case correspondence file.

5. Meade District shall file for an adjustment in base rates or file for an alternative rate filing within three years of the date of filing of this Order or, in the alternative, file a formal motion with a detailed analysis of its rates and states the reasons why no modifications are necessary.

6. This case is closed and will be removed from the Commission's docket.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

By the Commission



ATTEST:

A handwritten signature in blue ink that reads "Linda C. Bidwell". The signature is written in a cursive style and is positioned above a horizontal line.

Executive Director

Case No. 2021-00124

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